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SUBJECT: Guinea's Revenues Hard Hit

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¶1. (SBU) SUMMARY. Battered by more than six weeks of strike and a state of siege, Guinea's finances will present some of the new Prime Minister's most difficult challenges. All sectors of the economy were impacted, but mining, especially Guinea's cash cow bauxite, posted some of the most severe losses. In a blow to another revenue source, customs operations remained closed during most of the period January 10-February 27. Ships previously scheduled to arrive in port were allowed to dock and unload, but goods sat uncleared and in storage. In the meantime, commitments to the unions included some troubling economic measures that will further reduce revenues. End Summary.

Mining Operations Stifled

¶2. (SBU) Guinea's economy relies heavily on mining operations, which account for 32 percent of GDP. All the major mining operations in Guinea -- bauxite, gold, and diamonds -- managed to operate at least part-time during the January-February troubles, but were forced to tap stockpiles and reserves. Little new extraction took place.

Bauxite Operations Draw Down Reserves

¶3. (SBU) Bauxite, the government's largest source of income, remains Guinea's most consistently profitable export. Almost all large scale mining activity ceased, but companies tapped their reserves to post near normal output. Nonetheless, the effects of the civil unrest here reverberated worldwide. The price of raw bauxite, source material for aluminum, soared from 225 USD per metric ton in December, to nearly 375 USD per metric ton February ¶26.

¶4. (SBU) To combat possible incidences of theft and violent demonstrations, all major mining operations paid for the services of military guards. Fuel deliveries -- always vulnerable to pilferage but especially so during the state of siege -- were made in convoys with paid military escorts.

¶5. (SBU) Global Alumina (GAPCO) posted losses of about 25,000 USD per day. Construction of their multi-billion dollar alumina refinery ceased completely. The company evacuated many of its expatriate staff and focused on smaller scale environmental projects while its core staff of construction workers was unable to work.

¶6. (SBU) RUSAL, the world's largest alumina producer, nearly depleted its stockpiles of mined bauxite in order to produce and refine alumina during the state of siege. To supplement its

reserves, RUSAL began mining one of its secondary bauxite concessions near Kindia, a mine southwest of its primary mine and refinery site in Fria. It did not have significant security incidents in Kindia and Fria during this period, but its two railways to the port of Conakry were vandalized, and few trains were able to operate.

¶7. (SBU) The Bauxite Company of Guinea (CBG) posted the most significant profit losses. (Note: US and Canadian companies Alcoa and Alcan share a 51 percent interest in CBG, and the government of Guinea holds the remaining 49 percent.) Alcoa representatives told EconOff that each day of lost production by CBG amounts approximately 900,000 to 1,000,000 USD in lost revenue. That figure includes wages and benefits, fees associated with port and rail usage, and actual bauxite exports lost because of suspended mining. The government of Guinea's losses averaged 90,000 to 100,000 USD per day in profits and lost tax revenue. CBG did manage to continue minimal mining operations, functoning at about 20 percent capacity.

Gold - Struggling to Mee Targets

¶8. (SBU) The gold companies were generally able to continue work during the strike, but not during thestate of siege. Production at AngloGold Ashantiwas about 70 percent of their normal 25,000 ouncs-per-month output Febuary 12-23. With current reerve stockpiles that can meet their full production needs for 3 to 4 months, the company drew fromtheir reserves during the political unrest. AngoGold Ashanti expects to meet profit projections fr this quarter even if there is further unrest i Guinea.

¶9. (SBU) Societe Miniere de Dinguiraye (SMD), ceased production

completely on February 17 because of mechanical problems with their sole crusher. To meet profit targets for this quarter, SMD officials told us they have to return to at least strike-level production (45 to 50 percent normal production or 4200-4500 ounces of gold per month) by March 9. The company told us that they expect they will be able to do so if they are able to repair their crusher.

No Diamonds, No Kimberley Process

¶10. (SBU) According to one of Guinea's leading diamond exporters Hadja Balde, diamond production in the interior halted completely during the strike and state of siege. Balde said transport was difficult because of fuel shortages, and the Central Bank, which administers the Kimberley process to certify non-conflict diamonds, was not functioning. Balde estimates her diamond export business lost 60,000 USD during the state of siege. During the upheaval, diamonds undoubtedly left Guinea, but without undergoing any certifying process.

Port Activity Halted

¶11. (SBU) Representative of shipping company Maersk told EconOff that the port functioned at minimal capacity during the general strike and the state of siege. Ships scheduled to arrive in Conakry were permitted to dock and unload. However, customs did not clear incoming shipments, so goods were simply left in their containers.

¶12. (SBU) There are now hundreds of containers filling every available storage space, making it difficult to maneuver within the area. Embassy GSO and Maersk representatives confirm the port is nearing its full storage capacity and that it will take weeks for operations to return to normal.

¶13. (SBU) Although customs was not technically open during the

strike and state of siege, Guinea's major rice importer Amadou Diallo told EconOff he paid customs officials to have an eight-ton shipment of rice "cleared" through the port. (Note: That is to say he bribed the officials to gain access to his goods.). Diallo's own trucks loaded and transported the rice to his storehouses.

¶14. (SBU) The industrial port at Kamsar is used exclusively by mining companies and is functioning, but shipping markedly less product volume.

COMMENT

¶15. (SBU) The mining sector is pretty resilient and has weathered storms before. The global demand for bauxite and alumina is at no risk of diminishing. The import-export merchants have undoubtedly taken a hit, but most spread their risk and will recover once shipping is up and working again. It is the national coffers that are most damaged by more than six weeks of starvation. Moreover, the new government will inherit fundamentally flawed policies that will continue to decimate revenue: subsidies on petroleum products and a prohibition on the export of agricultural goods for the remainder of the calendar year. Both these policies are commitments included in the January 27 tripartite agreement that eventually led (after a side trip or two) to seeming resolution of Guinea's crisis. As new Prime Minister Lansana Kouyate takes stock, he will have to make some tough decisions on how to increase revenues and limit expenditures.

MCDONALD